# Saskatchewan Government Growth Fund VIII Ltd.

## Financial Statements

## For the Period Ending December 31, 1999

SASKATCHEWAN GOVERNMENT
GROWTH FUND

Deloitte & Touche

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# Auditors' Report

To the Shareholders of
Saskatchewan Growth Fund VIII Ltd.

We have audited the statement of financial position of Saskatchewan Government Growth Fund VIII Ltd. as at December 31, 1999, and the statement of operations and retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

January 31, 2000

# Saskatchewan Government Growth Fund VIII Ltd.

**(Incorporated under The Business Corporations Act of Saskatchewan)**
**Statement of Financial Position**
**As at December 31**

| | | 1999 |
|---|---|---|
| **Assets** | | |
| Cash | $ | 2,918,603 |
| Deferred costs (Note 3) | | 162,767 |
| | $ | 3,081,370 |
| **Liabilities and Shareholders' Equity** | | |
| Accounts payable and accrued liabilities | $ | 40,108 |
| Commissions payable | | 104,500 |
| Subscription deposits (Note 4) | | 2,921,324 |
| Accrued interest payable to investors | | 13,521 |
| | | 3,079,453 |
| **Shareholders' Equity** | | |
| Share capital (Note 5) | | 1,000 |
| Retained earnings | | 917 |
| | | 1,917 |
| | $ | 3,081,370 |

See accompanying notes to financial statements

On behalf of the Board:

Director

Director

## Saskatchewan Government Growth Fund VIII Ltd.

**Statement of Operations and Retained Earnings**
**For the Year Ended December 31**

| | | 1999 |
|---|---|---|
| **Revenues** | | |
| Interest from cash | $ | 110,028 |
| Other income | | 12,238 |
| | | 122,266 |
| **Expenses** | | |
| Administration (Note 7) | | 43,891 |
| Interest on subscription deposits | | 77,458 |
| | | 121,349 |
| **Net income** | | 917 |
| **Retained earnings, beginning of year** | | - |
| **Retained earnings, end of year** | $ | 917 |

See accompanying notes to financial statements

## Saskatchewan Government Growth Fund VIII Ltd.

**Statement of Cash Flows**
**For the Year Ended December 31**

| | | 1999 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ | 917 |
| Net change in non-cash balances related to operations (Note 8) | | (4,638) |
| Cash flows from operating activities | | (3,721) |
| **Cash flows from financing activities** | | |
| Proceeds from share issuance | | 1,000 |
| Proceeds from note subscriptions | | 2,921,324 |
| Cash flows from financing activities | | 2,922,324 |
| **Net increase in cash** | | 2,918,603 |
| **Cash at beginning of year** | | - |
| **Cash at end of year** | $ | 2,918,603 |

See accompanying notes to financial statements

# Saskatchewan Government Growth Fund VIII Ltd.
## Notes to the Financial Statements
## December 31, 1999

### 1. Status of the corporation

Saskatchewan Government Growth Fund VIII Ltd. ("SGGF VIII") was incorporated in March 1999 under The Business Corporations Act of Saskatchewan and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program. Under this program, SGGF VIII was established to raise $35,000,000 through a note offering. Each note is a 1½% unsecured, subordinated debt instrument with a cost of $250,000, redeemable in five years provided that 70% of the proceeds are maintained in eligible investments. SGGF VIII commenced commercial operations in 1999 and achieved its minimum offering of 14 investors in March 1999. The marketing period for SGGF VIII ended on March 31, 1999.

Under the terms of the Confidential Offering Memorandum ("Memorandum"), SGGF VIII is required to invest in Saskatchewan based businesses which have assets, including associated companies, of less than $35 million.

As stated in the Memorandum, the Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of SGGF VIII or of a return on an investor's original investment and neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the debt instruments.

### 2. Significant accounting policies

*Deferred costs*

Deferred costs include consulting, legal, administrative, accounting, general and printing costs associated with SGGF VIII's offering. Commissions paid or payable on subscriptions received have also been deferred. Deferred costs, including commissions, are amortized over five years from date of note issuance.

*Commissions payable*

According to the terms of marketing agreements entered into by SGGF VIII, a commission is legally payable to the independent marketing agents selling the notes upon the issuance of the investor's immigrant visa.

*Accrued interest payable to investors*

SGGF VIII accrues interest on its note subscription deposits from the date of deposit to the date of the note issuance. Investors earn interest at a rate of one and one-half (1½%) per annum.

### 3. Deferred costs

Deferred costs have been recorded net of accumulated amortization of nil.

### 4. Subscription deposits

Subscription deposits are reclassified to obligations to investors upon note issuance.

### 5. Share capital

The authorized common share capital of SGGF VIII at December 31 is:

Common shares - an unlimited number of voting common shares. Holders of the common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

| | 1999 |
|---|---|
| 1,000 common shares | $ 1,000 |

**6. Financial instruments**

SGGF VIII's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This entails exposure to market risk, credit risk, interest rate risk and liquidity risk. These risk factors may impact upon SGGF VIII's ability to repay its obligations to investors at maturity.

*Market Risk*

Market risk faced by SGGF VIII is the risk that the fair value of its investments may decline due to a reduction in the anticipated earnings generated by the business in which SGGF VIII invests. Some of the companies in which SGGF VIII invests are dependent upon a single product or industry. SGGF VIII manages these risks through careful due diligence prior to committing funds to the investment and ensuring that the overall portfolio is properly diversified across various industry sectors.

*Credit Risk*

Credit risk arises from the potential that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that SGGF VIII restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to similar economic conditions. The ability of such investees to meet contractual obligations would be similarly affected by changing economic, political or other conditions. SGGF VIII conducts a thorough due diligence process prior to committing to the investment and actively monitors the financial health of its investees on an on-going basis. In addition, some investees operate in and export to other provinces or international markets thereby mitigating this risk.

*Interest Rate Risk*

Interest rate risk reflects the risk that SGGF VIII's earnings will decline due to fluctuations in interest rates. SGGF VIII manages this risk through careful monitoring and matching the duration of its short-term deposits and investments with its obligations to investors. By matching the duration of its assets and liabilities, changes in the fair value of short-term deposits and investments will be offset by changes in the fair value of the obligations to investors.

*Liquidity Risk*

Liquidity risk is the risk that SGGF VIII will encounter difficulty in liquidating its investments at an amount close to fair value at the time it is required to redeem its obligations to investors. Due to the nature of some of SGGF VIII's investments, the timing of cash flows from its investments may not exactly match with the payments owing under SGGF VIII's obligations to investors. SGGF VIII carefully monitors the duration of its investments. However, these timing differences may require SGGF VIII to reduce or delay the payments owing on its obligations to investors at maturity.

**10. Related party transactions**

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan government controlled departments, agencies and corporations with which SGGF VIII is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

As stated in Note 7, SGGF VIII is under a ten year Management Agreement with SGGF Management Corporation. Total fees paid or payable to SGGF Management Corporation during the year amounted to $48,658.

**11. Comparative figures**

The first year of commercial operations for SGGF VIII was 1999. Therefore, no comparative figures are presented.

**12. Year 2000 issue**

The Year 2000 Issue arises because many computer systems use two digits rather than four to identify a year. Date sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than that date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

*Measurement Uncertainty*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

**7. Administration**

Under the terms of a ten year Management Agreement, expiring in 2009, between SGGF VIII and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of SGGF VIII with the assistance of various investment advisors to perform due diligence, monitoring and liquidation of investments. SGGF Management Corporation does not guarantee the financial performance of SGGF VIII. All services provided to SGGF VIII are charged on a fee for service basis. The breakdown of costs is as follows:

| | 1999 |
|---|---|
| Wages and salaries | $ 16,874 |
| General administration | 16,291 |
| Directors fees and expenses | 2,942 |
| Legal and professional | 12,551 |
| | 48,658 |
| Less costs deferred | 4,767 |
| | $ 43,891 |

**8. Net change in non-cash balances related to operations**

| | 1999 |
|---|---|
| Deferred costs | $ (162,767) |
| Accounts payable and accured liabilities | 40,108 |
| Commissions payable | 104,500 |
| Accrued charges payable to investors | 13,521 |
| | $ (4,638) |

**9. Income taxes**

Greater than 90% of the issued shares of SGGF VIII are owned by a provincial Crown corporation. Therefore, SGGF VIII is income tax exempt.